



bae urban economics

INCLUSIONARY HOUSING ANALYSIS CALIBRATION FINDINGS

City of Portland

July 7, 2023

PRESENTATION OVERVIEW

- Comparison City Cost Findings
- Local Policy Impact Findings
- Financial Feasibility Findings
- IH Calibration Findings
- Discussion and Next Steps

PORTLAND & COMPARISON CITY COST FINDINGS

COST COMPARISON STUDY OVERVIEW

- Portland costs compared to Seattle, Denver, & Sacramento
- Use same 6-story podium prototype in all comparison cities
- Conducted developer interviews in comparison cities
- Limited assessment of project “feasibility”

City of Portland



City of Seattle



City of Denver



City of Sacramento



COST COMPARISON STUDY FINDINGS

- Developers in all cities noted significant feasibility challenges due to cost increases
- Portland total costs ~10-20% lower than Sacramento and Seattle
- Portland has lower SDC/impact fees than Sacramento and Denver; Seattle has limited impact fees, but requires developers to make significant on-site upgrades in-lieu of paying fees
- Other major cost factors are comparable across comparison cities

BAE COST COMPARISON STUDY

DRAFT FINDINGS

City of Portland



6-Story Podium Prototype

City of Seattle



6-Story Podium Prototype

City of Denver



6-Story Podium Prototype

City of Sacramento



6-Story Podium Prototype

<u>Development Cost</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>	<u>Total Cost</u>	<u>Per Unit</u>	<u>Per GSF</u>
Land Cost	\$7,150,000	\$50,000	\$72	\$11,440,000	\$80,000	\$115	\$9,295,000	\$65,000	\$94	\$7,150,000	\$50,000	\$72
Hard Cost	\$34,779,150	\$243,211	\$350	\$40,741,290	\$284,904	\$410	\$35,838,000	\$250,615	\$361	\$36,652,500	\$256,311	\$369
Parking Cost	\$4,320,000	\$30,210	\$43	\$4,680,000	\$32,727	\$47	incl above	n.a.	n.a.	\$4,320,000	\$30,210	\$43
Soft Costs	\$7,819,830	\$54,684	\$79	\$8,175,832	\$57,174	\$82	\$6,450,840	\$45,111	\$65	\$10,243,125	\$71,630	\$103
SDC / Impact Fees	\$2,332,293	\$16,310	\$23	\$50,698	\$355	\$1	\$2,574,000	\$18,000	\$26	\$3,575,000	\$25,000	\$36
Financing Costs	\$2,487,296	\$17,394	\$25	\$2,870,373	\$20,073	\$29	\$2,388,361	\$16,702	\$24	\$3,679,273	\$25,729	\$37
Developer Fee	\$1,552,157	\$10,854	\$16	\$2,038,746	\$14,257	\$21	\$1,696,386	\$11,863	\$17	\$1,754,097	\$12,266	\$18
Total Development Cost	\$60,440,726	\$422,662	\$608	\$69,996,939	\$489,489	\$704	\$58,242,587	\$407,291	\$586	\$67,373,995	\$471,147	\$678
<i>% of Portland Costs</i>		100%			116%			96%			111%	

FINDINGS DETAIL

- **Portland renter incomes are lowest across all cities;** Unlike comparison cities, renter incomes are lower in Portland than in Metro Area.
- **Rents** in Seattle and Sacramento are higher, while Denver is slightly below
- **Investor Return Requirements** are similar, but lowest in Seattle due to perceived strong market dynamics and demand drivers.
- All cities have **similar IH requirements**, with differing incentives:
 - Sacramento: Housing Impact Fee, with onsite option (10% at 80% AMI). Limited City incentives
 - Denver: 8% at 60% AMI to 15% at 70% AMI; modest land use incentives and fee waivers
 - Seattle: 5 - 11% of units (depending on area and city upzoning). Property tax exemption available with provision of additional affordable units.

LOCAL POLICY IMPACT FINDINGS

STUDY OVERVIEW

- Assess relative impact of individual policies on five housing prototypes:
 - Townhome Prototype (4 units)
 - Multifamily Prototypes (3-, 4-, 6-, & 30-stories)
- Local Policies:
 - Direct Fees (i.e., SDCs)
 - Bike Parking Requirement
 - First Floor Active Use
 - Design Review
 - Public Infrastructure Requirements

LOCAL POLICY COST IMPACT FINDINGS

PROTOTYPICAL DEVELOPMENT COST SUMMARY

Characteristics	Prototype 1 Townhome		Prototype 2 Surface Parked MFR		Prototype 3 Tuck-Under MFR		Prototype 4 Podium MFR		Prototype 5 High-Rise MFR	
Project Example										
	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit	Total Cost	Per Unit
Land Cost	\$400,000	\$100,000	\$800,000	\$20,000	\$1,920,000	\$30,000	\$7,150,000	\$50,000	\$39,900,000	\$75,000
Hard Cost	\$1,110,000	\$277,500	\$7,410,000	\$185,250	\$11,797,500	\$184,336	\$34,779,150	\$243,211	\$150,968,700	\$283,776
Parking Cost	<i>Incl. above</i>	n.a.	\$100,000	\$2,500	\$480,000	\$7,500	\$4,320,000	\$30,210	\$15,960,000	\$30,000
Soft Costs	\$222,000	\$55,500	\$1,652,200	\$41,305	\$2,701,050	\$42,204	\$7,819,830	\$54,684	\$30,047,166	\$56,480
SDC / Impact Fees	\$132,628	\$33,157	\$752,240	\$18,806	\$1,167,232	\$18,238	\$2,332,293	\$16,310	\$8,333,518	\$15,665
Financing Costs	\$82,230	\$20,558	\$472,507	\$11,813	\$796,701	\$12,448	\$2,487,296	\$17,394	\$10,813,734	\$20,327
Developer Fee	\$77,343	\$19,336	\$311,608	\$7,790	\$508,274	\$7,942	\$1,552,157	\$10,854	\$6,483,694	\$12,187
Total Development Cost	\$2,024,201	\$506,050	\$11,498,555	\$287,464	\$19,370,757	\$302,668	\$60,440,726	\$422,662	\$262,506,812	\$493,434

LOCAL POLICY COST IMPACT FINDINGS

- Depending on site location and prototype, revisions to existing policies can reduce cost of building **between 2 and 14 percent**
- SDC waivers represent the largest potential cost savings, but may represent challenges associated with planned City capital improvements
- Other immeasurable factors can also improve feasibility (i.e., faster approval process, eliminating contradictory policies, reducing last-minute requirements, etc.)

SYSTEM DEVELOPMENT CHARGES

- Estimate impact of waiving all SDCs
- Estimate impact of reducing SDCs by 25%
 - City policy to reduce fees, **OR**
 - City allows developers to reduce SDCs based on on-/off-site improvements (ex: reduced transportation SDC fee if developer is required to upgrade nearby traffic light, etc.)

SYSTEM DEVELOPMENT CHARGES IMPACT

<u>Characteristics</u>	<u>Townhome</u>	<u>Surface Parked MFR</u>	<u>Tuck-Under MFR</u>	<u>Podium MFR</u>	<u>High-Rise MFR</u>
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812

Policy Adjustments

Standard Fees and Charges

Total SDC Costs	\$132,628	\$752,240	\$1,167,232	\$2,332,293	\$8,333,518
<i>% of Project Costs</i>	6.6%	6.5%	6.0%	3.9%	3.2%
Waive/Use SDCs for on/off-site Project Costs (25% reduction in SDCs)	\$33,157	\$188,060	\$291,808	\$583,073	\$2,083,380
<i>% of Project Costs</i>	1.6%	1.6%	1.5%	1.0%	0.8%

BIKE PARKING REQUIREMENT

- Developers currently required to build 1.5 bike parking spaces per unit
- Assess impact of reducing requirement to 1.0 and 0.5 spaces per unit
- Two approaches to estimating impact
 - **Cost Approach:** Estimate the cost savings by the reduced bike parking requirement
 - **Revenue Approach:** Assume developer will substitute residential unit(s) in place of reduced bike parking space. Leads to increased income, and higher relative project value.

BIKE PARKING REQUIREMENT IMPACT

<u>Characteristics</u>	<u>Townhome</u>	<u>Surface Parked MFR</u>	<u>Tuck-Under MFR</u>	<u>Podium MFR</u>	<u>High-Rise MFR</u>
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812

Policy Adjustments

Bike Parking Requirement

Reduce to 1.0 Spaces per Unit

Cost Approach

Cost of Bike Parking Spaces	n.a.	\$106,080	\$169,728	\$510,510	\$2,251,956
Percent of Project Cost	n.a.	0.9%	0.9%	0.8%	0.9%

Revenue Approach

Foregone Annual Revenue	n.a.	\$18,360	\$29,376	\$65,637	\$244,188
Project Value of Lost Revenue	n.a.	\$220,970	\$363,950	\$836,436	\$3,111,776
Percent of Project Cost	n.a.	1.9%	1.9%	1.4%	1.2%

Reduce to 0.5 Spaces per Unit

Cost Approach

Cost of Bike Parking Spaces	n.a.	\$212,160	\$339,456	\$1,021,020	\$4,503,912
Percent of Project Cost	n.a.	1.8%	1.8%	1.7%	1.7%

Revenue Approach

Foregone Annual Revenue	n.a.	\$36,720	\$58,752	\$131,274	\$488,376
Project Value of Lost Revenue	n.a.	\$441,940	\$727,901	\$1,672,872	\$6,223,553
Percent of Project Cost	n.a.	3.8%	3.8%	2.8%	2.4%

FIRST FLOOR ACTIVE USE REQUIREMENT

- Assess impact of waiving the First Floor Active Use requirement
- Assume “active use” is retail tenant
- Two approaches to estimating impact
 - **Assume no Retail Tenant:** Estimate the cost of delivering unused retail space. Assumes developer could eliminate retail space or replace with cost-neutral use
 - **Convert Retail to Residential:** Assume developer will substitute residential unit(s) in place of ground floor retail. Reduces cost of tenant improvements, and substitutes residential rent for retail rent

FIRST FLOOR ACTIVE USE REQUIREMENT IMPACT

Characteristics	Townhome	Surface Parked MFR	Tuck-Under MFR	Podium MFR	High-Rise MFR
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812
Policy Adjustments					
<u>First Floor Active Use Requirement</u>					
<u>Assuming No Retail Tenant</u>					
Cost of Non-Leased Retail Space	n.a.	n.a.	\$676,000	\$1,260,000	\$1,909,000
Percent of Project Cost	n.a.	n.a.	3.5%	2.1%	0.7%
<u>Allow Residential</u>					
Cost Savings (No Tis)	n.a.	n.a.	\$250,000	\$350,000	\$450,000
Project Value of New Revenue	n.a.	n.a.	\$66,372	\$92,920	\$119,469
Total Financial Benefit	n.a.	n.a.	\$316,372	\$442,920	\$569,469
Percent of Project Cost	n.a.	n.a.	1.6%	0.7%	0.2%

DESIGN REVIEW REQUIREMENT

- Assess impact of required Design Review Process
- Two sources of cost savings:
 - **Value of longer approval process:** Assume three months longer approval process and associated required return on pre-development dollars
 - **Soft cost savings:** Assume soft cost reduction of 5 percent (i.e., 20% of hard costs to 19% of hard costs) associated with lower required fees for architecture and engineering

DESIGN REVIEW REQUIREMENT IMPACT

Characteristics	Townhome	Surface Parked MFR	Tuck-Under MFR	Podium MFR	High-Rise MFR
Project Example					
Total Development Cost	\$2,024,201	\$11,498,555	\$19,370,757	\$60,440,726	\$262,506,812
Policy Adjustments					
<u>Design Review</u>					
Cost of Capital Associated with Longer Approval Process (3 Months)	n.a.	\$15,967	\$34,750	\$123,085	\$648,471
Soft Cost Reduction	n.a.	5%	5%	5%	5%
Soft Cost Savings	n.a.	\$82,610	\$135,053	\$390,992	\$1,502,358
Total Financial Benefit	n.a.	\$98,577	\$169,803	\$514,076	\$2,150,829
Percent of Project Cost	n.a.	0.9%	0.9%	0.9%	0.8%

OTHER POLICY IMPACTS

- Infrastructure Requirements
 - Ped PDX impacts buildable SF due to setbacks
 - Required off-site infrastructure upgrades
 - Pay SDCs but also required to pay for upgrades
 - Uncertainty around site-specific requirements
- Permitting Process Time and Uncertainty
- Contradictory codes/requirements
- Other site-specific costs (e.g., tree mitigation, bird glass, etc.)

FINANCIAL FEASIBILITY FINDINGS

RECENT MARKET TRENDS

Over Same Time Period:
 Portland Median Income
 increased **29%**
 High-End Rental Rates
 increased **24%**

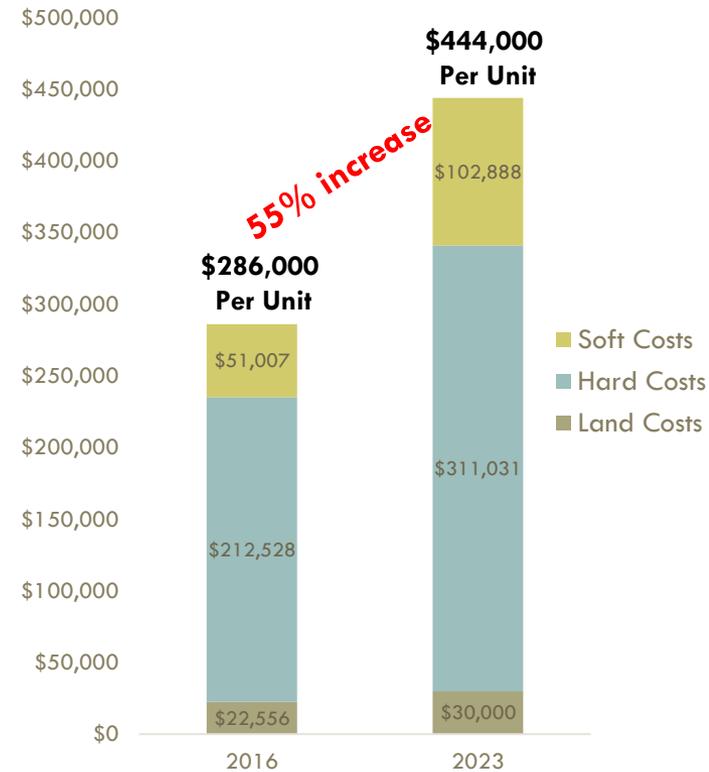
Type V Construction



Type III Construction



Type I Construction



RESIDUAL LAND VALUE APPROACH

Hypothetical Example



Development Cost (excl. land purchase) = **\$58 Million**

Value of Property to Investors = **\$60 Million**

Residual Land Value = **\$2 Million**

Financial Feasibility

Can you buy a 1/2-Acre Site for \$2 Million?

FINANCIAL FEASIBILITY FINDINGS

- At current costs, feasibility is challenging
 - Lower-Density projects (less than 5 stories) are most feasible due to lower cost, but less attractive to investors due to limited size
 - Higher-Density projects are more infeasible, as rents have not kept pace with higher cost of construction
- Low-Rent areas most challenging due to similar development costs (excluding land) plus lower rents

FINANCIAL FEASIBILITY ANALYSIS

- Cost increases outweighed revenue increases
- Market factors required for feasibility (all else being equal):
 - Rents must increase between 15 and 35 percent; or
 - Hard Costs must decrease between 15 and 40 percent; or
 - Investor return requirements decrease to pre-pandemic levels
- Other Actions:
 - Total “all-in” costs must decrease by 12 to 30 percent
 - City incentives must increase to offset worsened market factors
 - City can reduce risk and uncertainty by streamlining approvals
 - City can consider policy adjustments to decrease costs (bike parking, first floor active use, SDCs, etc.)

IH CALIBRATION FINDINGS

FOR-SALE HOUSING CALIBRATION

- Interviews indicated macro challenges to condominium developments
- Limited interest due to construction defect liability
 - Only expressed interest assumed using Type I construction, which is very expensive
- Impact of Inclusionary Housing Policy is secondary to other factors

RENTAL HOUSING CALIBRATION

MULTIPLE WAYS TO ASSESS IH POLICY

■ **Balance** City Incentives with impact of IH policy

Impact of IH

- Reduces rent for % of units
- Reduced rent lowers project value to developer/investor

City Incentives

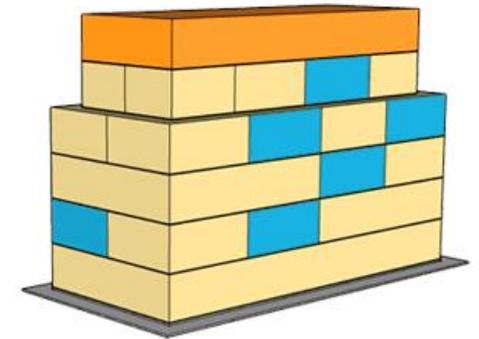
- System Development Charge Waivers
- 10-Year Property Tax Exemption
- Construction Excise Tax Exemption
- Other Land Use Incentives

■ **Financial Feasibility** of Projects with Inclusionary Housing units (does full project meet investor return requirement).

IMPACT ON PROJECT VALUE

	Value of Unit	
	Market	Affordable
Monthly Rent	\$2,400	\$1,099
Annual Net Income	\$19,295	\$8,570
Investor Required YOC	5.65%	5.65%
Value to Investor	\$341,509	\$151,690

54 Market-Rate Units
6 Affordable Units



6 Stories - 66,000 square feet

In high-rent submarkets, each IH unit reduces project value by **~\$190,000**

CITY INCENTIVES TO OFFSET IH

- Central City Example:

<u>Central City Incentives</u>	<u>Per 60% Unit</u>
Construction Excise Tax Exemption	\$3,398
SDC Waiver	\$16,641
<u>NPV of 10-YR Prop Tax Exemption</u>	<u>\$229,670</u>
Total Incentives per 60% AMI Unit	\$249,709

**Tax
Exemption
on Full
Property**

- Non-Central City Example:

<u>Non-Central City Incentives</u>	<u>Per 60% Unit</u>
Construction Excise Tax Exemption	\$3,297
SDC Waiver	\$17,880
<u>NPV of 10-YR Prop Tax Exemption</u>	<u>\$23,872</u>
Total Incentives per 60% AMI Unit	\$45,049

**Tax Exemption
on Affordable
Units Only**

CITY INCENTIVES VERSUS IH IMPACT

- To assess “balance,” create Benefit-to-Cost Ratio Ranges

Benefit-to-Cost Ratio Ranges

Less than 0.80

Under-Incentivized

0.80 to 1.39

Balanced Incentives

1.40 or More

Over-Incentivized



7-Story CC
172 Total Units

IH IMPACT AND CITY INCENTIVES COMPARISON

7-STORY CENTRAL CITY

IH Cost and Incentives	7-Story Central City			
	High-Rent Scenario		Medium-Rent Scenario	
	60% MFI	80% MFI	60% MFI	80% MFI
IH Incentive Value Comparison				
Cost to Market Rate Developers				
Net Operating Income Impact	\$182,749	\$251,856	\$136,921	\$162,446
<i>Per Unit per Month</i>	\$846	\$600	\$634	\$387
Impact on Project Value	\$3,234,488	\$4,457,633	\$2,423,384	\$2,875,146
<i>Per Affordable Unit</i>	\$179,694	\$127,361	\$134,632	\$82,147
City Incentives / Fees				
Construction Excise Tax Exemption	\$61,167	\$117,313	\$55,998	\$107,424
SDC Waiver	\$299,547	\$0	\$299,547	\$0
Property Tax Exemption	\$4,134,052	\$4,043,593	\$3,600,455	\$3,569,215
Total Incentives	\$4,494,766	\$4,160,906	\$3,955,999	\$3,676,639
<i>Per Affordable Unit</i>	\$249,709	\$118,883	\$219,778	\$105,047
Cost / Benefit of IH	\$1,260,278	(\$296,727)	\$1,532,615	\$801,493
<i>Cost-Benefit Ratio</i>	1.4	0.9	1.6	1.3
Cost / Benefit Balance	Balanced Incentives	Balanced Incentives	Over-Incentivized	Balanced Incentives



4-Story Non-CC

64 Total Units

IH IMPACT AND CITY INCENTIVES COMPARISON

4-STORY NON-CENTRAL CITY

IH Cost and Incentives	4-Story Non-Central City					
	High-Rent Scenario		Medium-Rent Scenario		Low-Rent Scenario	
	60% MFI	80% MFI	60% MFI	80% MFI	60% MFI	80% MFI
IH Incentive Value Comparison						
Cost to Market Rate Developers						
Net Operating Income Impact	\$74,420	\$102,392	\$35,030	\$29,195	\$14,218	\$0
<i>Per Unit per Month</i>	\$886	\$656	\$417	\$187	\$169	\$0
Impact on Project Value	\$1,317,170	\$1,812,248	\$620,004	\$516,722	\$251,653	\$0
<i>Per Affordable Unit</i>	\$188,167	\$139,404	\$88,572	\$39,748	\$35,950	\$0
City Incentives / Fees						
Construction Excise Tax Exemption	\$18,585	\$33,823	\$17,012	\$30,968	\$16,068	\$29,255
SDC Waiver	\$132,546	\$0	\$132,546	\$0	\$132,546	\$0
Property Tax Exemption	\$162,136	\$293,666	\$116,513	\$218,465	\$92,408	\$178,215
Total Incentives	\$313,267	\$327,489	\$266,071	\$249,434	\$241,022	\$207,471
<i>Per Affordable Unit</i>	\$44,752	\$25,191	\$38,010	\$19,187	\$34,432	\$15,959
Cost / Benefit of IH	(\$1,003,903)	(\$1,484,760)	(\$353,933)	(\$267,289)	(\$10,630)	\$207,471
<i>Cost-Benefit Ratio</i>	0.2	0.2	0.4	0.5	1.0	n.a.

Cost / Benefit Balance	Under-Incentivized	Under-Incentivized	Under-Incentivized	Under-Incentivized	Balanced Incentives	Over-Incentivized
-------------------------------	--------------------	--------------------	--------------------	--------------------	---------------------	-------------------



7-Story Non-CC

143 Total Units

IH IMPACT AND CITY INCENTIVES COMPARISON

7-STORY NON-CENTRAL CITY

IH Cost and Incentives	7-Story Non-Central City					
	High-Rent Scenario		Medium-Rent Scenario		Low-Rent Scenario	
	60% MFI	80% MFI	60% MFI	80% MFI	60% MFI	80% MFI
IH Incentive Value Comparison						
Cost to Market Rate Developers						
Net Operating Income Impact	\$153,656	\$205,552	\$71,281	\$46,665	\$28,300	\$0
<i>Per Unit per Month</i>	\$854	\$591	\$396	\$134	\$157	\$0
Impact on Project Value	\$2,719,583	\$3,638,084	\$1,261,617	\$825,928	\$500,877	\$0
<i>Per Affordable Unit</i>	\$181,306	\$125,451	\$84,108	\$28,480	\$33,392	\$0
City Incentives / Fees						
Construction Excise Tax Exemption	\$49,449	\$97,640	\$45,270	\$89,358	\$40,495	\$79,893
SDC Waiver	\$268,207	\$0	\$268,207	\$0	\$268,207	\$0
Property Tax Exemption	\$358,082	\$675,364	\$258,415	\$505,020	\$206,411	\$415,648
Total Incentives	\$675,737	\$773,004	\$571,893	\$594,379	\$515,113	\$495,542
<i>Per Affordable Unit</i>	\$45,049	\$26,655	\$38,126	\$20,496	\$34,341	\$17,088
Cost / Benefit of IH	(\$2,043,846)	(\$2,865,080)	(\$689,724)	(\$231,550)	\$14,237	\$495,542
<i>Cost-Benefit Ratio</i>	0.2	0.2	0.5	0.7	1.0	n.a.
Cost / Benefit Balance	Under-Incentivized	Under-Incentivized	Under-Incentivized	Under-Incentivized	Balanced Incentives	Over-Incentivized

BALANCING IH IMPACT AND CITY INCENTIVES

IH Units are only provided when market-rate development is feasible
Without IH, and even with ‘balanced’ IH, feasibility is still challenging

- City Incentives:
 - Offset impact of IH in Central City
 - Property tax exemption provides significant financial value
 - Under-incentivize projects in “High Rent” markets outside CC
 - Over-incentivize projects in “Low Rent” markets outside CC
- In-Lieu Fee Option is not beneficial due to lost City incentives
- Reducing Inclusion Rates
 - Over-incentivizes Central City projects
 - Limited impact outside Central City

OTHER CITY EFFORTS

- Housing Needs Assessment
- Housing Production Strategy
 - Incorporate Findings from BAE Work and other City analyses
- Advance Portland

NEXT STEPS

NEXT STEPS

- **Working Group Meeting #8 – July 10**
 - Finalize IH Working Group Recommendations
- **Council Work Session on Housing Production – July 25**
 - Present IH recommendations
 - Present cost comparison analysis
 - Present local policy impact analysis
 - Discuss recommendations to address housing feasibility issues



QUESTIONS AND DISCUSSION

ADDITIONAL SLIDES

MODEL PREVIEW

City of Portland Development Pro Forma, Prototype CC-1, 60% AMI IH Option, Medium Development Cost, Medium Revenue

Assumptions	
Prototype	CC-1
Development Cost	Medium
Revenue	Medium
IH Option	60%
Location	Central City
Construction Type	Type 5

Development Program Assumptions

Site Size - acres / square feet	0.5	20,000
Total Units		112
Affordable (% - count)	11%	12
Market Rate (% - count)	89%	100
Leasable Residential sq. ft.		63,750
Leasable Retail sq. ft.		4,000
Circulation & Communal Space		20%
Total Project sq.ft		84,688
Total Parking Spaces		56
Parking spaces per du		0.50
Parking Space Type		Underground
Number of Stories		4-Stories

Unit Mix and Affordability Levels

Unit Mix	Sq. Ft.	AMI-Level			
		60%	80%	MR	All
Studio	450	5	0	40	45
1-BR	600	6	0	50	56
2-BR	900	1	0	10	11
3-BR	1,000	0	0	0	0
All Units		12	0	100	112

Summary

	Affordable	Market-Rate	Total
Number of Units (# - %)	12 11%	100 89%	112
Avg. Affordability (% AMI)	60%	n.a.	
Leasable Sq. Ft.	6,750	57,000	63,750
Total Sq. Ft.	8,543	72,145	80,688
Parking Spaces	6	50	56
Parking Space/du	0.50	0.50	0.50

Cost Assumptions

Construction			
Hard Cost per gross res/com sf			\$235
Commercial Tenant Improvement per sf			\$100
Parking cost per space			\$60,000
Soft Costs (% of hard costs)			20%
Service District Charge (per unit) (a)			\$16,618
Affordable Housing In-lieu fee per gsf			n.a.
Developer Fee (% of hard and soft)			3%

Rental Revenue

Unit Type	Rental Rates by AMI		
	60%	80%	MR
Studio	\$1,042	\$1,415	\$1,575
1-BR	\$1,096	\$1,496	\$1,950
2-BR	\$1,310	\$1,790	\$2,700
3-BR	\$1,508	\$2,062	\$3,000

Other Residential Income (Per Month)

Parking (per space)	\$150
Other Income (Per Unit)	\$80
Retail Rent (NNN per sq. ft.)	\$2.00

Operating Costs

Res Operating Cost (as % of gross revenue)	30.0%
Vacancy Rate, Residential	5%
Market Rate Cap Rate	4.7%

Financing

Construction-Period	
MR Loan-to-Cost	70%
Loan Fees	1.5%
Draw down Factor	60%
Interest rate	6.5%
Loan Term (months)	18

Development Cost Analysis

	Project Costs		
	Affordable	Market Rate	Total Project
Hard Cost	\$2,007,707	\$17,893,973	\$19,901,680
Commercial TIs	\$0	\$400,000	\$400,000
Parking Cost	\$360,000	\$3,000,000	\$3,360,000
Soft Costs	\$473,541	\$4,258,795	\$4,732,336
Service District Charge	\$199,419	\$1,661,821	\$1,861,239
Affordable Housing In-Lieu	\$0	n.a.	n.a.
Subtotal	\$3,040,667	\$27,214,588	\$30,255,255
Construction Financing			
Const. Loan Fees	\$31,927	\$285,753	\$317,680
Const. Loan Interest	\$124,515	\$1,114,437	\$1,238,953
Developer Fee	\$91,220	\$816,438	\$907,658
Total Development Cost	\$3,288,330	\$29,431,216	\$32,719,546
Per Unit	\$274,027	\$294,312	\$292,139
Per Net SF	\$487	\$516	\$513
Per Gross SF	\$385	\$408	\$406

Feasibility Analysis

	Project Feasibility		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	\$157,152	\$2,532,000	2,689,152
Less Vacancy	(\$7,858)	(\$126,600)	(\$134,458)
Less Operating Expenses	(\$47,146)	(\$759,600)	(\$806,746)
Net Operating Income	\$102,149	\$1,645,800	\$1,747,949
Development Cost/Subsidy			
Total Development Cost	3,288,330	29,431,216	32,719,546
Construction Excise Tax Exemption	(\$30,407)	\$0	(\$30,407)
SDC Waiver	(\$199,419)	\$0	(\$199,419)
NPV of 10-YR Prop Tax Exemption	(\$249,865)	(\$2,082,205)	(\$2,332,069)
Total Cost, Incl. Subsidies	\$2,808,640	\$27,349,012	\$30,157,652
Market Cap Rate	4.7%	4.7%	4.7%
Developer Profit Spread	1.0%	1.0%	1.0%
Required Yield-on-Cost	5.7%	5.7%	5.7%
Residual Land Value	-\$1,000,697	\$1,780,192	\$779,495
RLV Per Unit	-\$83,391	\$17,802	\$6,960
RLV per Site SF	-\$467	\$100	\$39

RENTAL RATE ASSUMPTIONS

<u>Rents</u>	<u>Unit Size</u>	<u>Market Rate Rent/SF</u>			<u>Market Rate per Unit</u>		
		<u>High</u>	<u>Medium</u>	<u>Low</u>	<u>High</u>	<u>Medium</u>	<u>Low</u>
Central City							
Studio	450	\$4.15	\$3.50	\$3.25	\$1,868	\$1,575	\$1,463
1BR	600	\$3.75	\$3.25	\$3.00	\$2,250	\$1,950	\$1,800
2BR	900	\$3.25	\$3.00	\$2.75	\$2,925	\$2,700	\$2,475
3BR	1,000	\$3.25	\$3.00	\$2.75	\$3,250	\$3,000	\$2,750
Parking (per space)					\$200	\$150	\$100
Other Income (Per Unit)					\$80	\$80	\$80
Commercial Rent NNN					\$2.50	\$2.00	\$1.50
Non-Central City							
Studio	450	\$4.15	\$3.25	\$2.50	\$1,868	\$1,463	\$1,125
1BR	600	\$3.75	\$2.50	\$2.00	\$2,250	\$1,500	\$1,200
2BR	900	\$3.25	\$2.25	\$1.75	\$2,925	\$2,025	\$1,575
3BR	1,000	\$3.25	\$2.25	\$1.75	\$3,250	\$2,250	\$1,750
Parking (per space)					\$200	\$50	\$0
Other Income (Per Unit)					\$80	\$80	\$80
Commercial Rent NNN					\$2.25	\$2.00	\$1.50

OPERATING COSTS AND PROPERTY VALUATION

Operating Costs as % of Revenue

Under 100 Units	32%
100-200 Units	30%
200+ Units	28%
Vacancy Rate	5%

Property Valuation/Yield-On-Cost

Market Cap Rate	4.7%
Developer Spread	1.0%
Required Yield-on-Cost	5.7%

Financing

Construction-Period	
Loan-to-Cost (excl land cost)	70.0%
Loan Fees	1.5%
Drawdown Factor	60.0%
Interest rate	6.5%
Loan Term (months)	18

LIMITED IMPACT OF REDUCING INCLUSION RATE TO “RAMP UP” PERCENTAGES

IH Cost and Incentives	4-Story Central City		4-Story Non-Central City	
	Current IH Rate (10% at 60% MFI)	Reduce IH Rate (8% at 60% MFI)	Current IH Rate (10% at 60% MFI)	Reduce IH Rate (8% at 60% MFI)
IH Incentive Value Comparison				
Cost to Market Rate Developers				
Net Operating Income Impact	\$126,656	\$94,752	\$74,420	\$55,689
<i>Per Unit per Month</i>	\$880	\$877	\$886	\$884
Value of Income Impact	\$2,240,000	\$1,680,000	\$1,320,000	\$990,000
City Incentives / Fees				
Construction Excise Tax Exemption	\$32,970	\$24,727	\$18,585	\$13,939
SDC Waiver	\$199,419	\$149,564	\$132,546	\$99,409
<u>Property Tax Exemption</u>	<u>\$2,680,169</u>	<u>\$2,722,855</u>	<u>\$162,136</u>	<u>\$123,724</u>
Total Incentives	\$2,910,000	\$2,900,000	\$310,000	\$240,000
Cost / Benefit of IH	\$670,000	\$1,220,000	(\$1,010,000)	(\$750,000)
<i>Cost-Benefit Ratio</i>	1.3	1.7	0.2	0.2
Cost / Benefit Balance	Balanced Incentives	Over-Incentivized	Under-Incentivized	Under-Incentivized
Project Value to Investors	\$35,550,000	\$36,100,000	\$20,180,000	\$20,480,000
<i>Value Change over Baseline</i>	n.a.	\$550,000	n.a.	\$300,000
<i>Percent change over Baseline</i>	n.a.	1.5%	n.a.	1.5%